

TOWNSHIP OF PENTLAND  
Luce County, Michigan

FINANCIAL REPORT WITH  
SUPPLEMENTARY INFORMATION

Year Ended March 31, 2006

## AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

<b>Local Government Type</b> <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		<b>Local Government Name</b> Township of Pentland	<b>County</b> Luce
<b>Audit Date</b> March 31, 2006	<b>Opinion Date</b> July 14, 2006	<b>Date Accountant Report Submitted to State:</b> July 24, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

<b>Certified Public Accountant (Firm Name)</b> Campbell, Kusterer & Co., P.C.			
<b>Street Address</b> 512 N. Lincoln, Suite 100, P.O. Box 686		<b>City</b> Bay City	<b>State</b> MI
<b>Accountant Signature</b> Campbell, Kusterer & Co., P.C.		<b>Zip</b> 48707	

TOWNSHIP OF PENTLAND  
Luce County, Michigan

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# **CAMPBELL, KUSTERER & CO., P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA  
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100  
P.O. BOX 686  
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040  
FAX (989) 894-5494

## **INDEPENDENT AUDITOR'S REPORT**

July 14, 2006

To the Township Board  
Township of Pentland  
Luce County, Michigan

We have audited the accompanying financial statements of the governmental activities, business-type activities and each major fund of Township of Pentland, Luce County, Michigan as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Pentland's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business-type activities and each major fund of the Township of Pentland, Luce County, Michigan as of March 31, 2006, and the respective changes in financial position and cash flows where applicable, of these activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated July 14, 2006, on our consideration of the Township of Pentland's internal control over financial reporting and on tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Campbell, Kusterer & CO., P.C.*

CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants

TOWNSHIP OF PENTLAND  
Luce County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2006

The Management's Discussion and Analysis report of the Township of Pentland covers the Township's financial performance during the year ended March 31, 2006.

FINANCIAL HIGHLIGHTS

Our financial status remained stable over the last year. Net assets at March 31, 2006, totaled \$553,024.77 for governmental activities and \$1,993,454.06 for business-type activities. Overall total capital assets remained approximately the same.

Overall revenues were \$444,112.77 (\$248,588.83 from governmental activities and \$195,523.94 from business-type activities). Governmental activities had a \$29,996.12 increase in net assets. Business-type activities had a decrease in net assets of \$20,209.72.

Taxable value increased by approximately \$1,080,375.00 or 3.4%.

We did not incur any new debt.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government and business-type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS  
For the year ended March 31, 2006

ENTITY-WIDE FINANCIAL STATEMENTS (continued)

All of the activities of the Township are reported as governmental activities and business-type activities. These include the General Fund, the Liquor Fund, the Water Fund and the Sewer Fund.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

The Township has the following types of funds:

Governmental Funds: Some of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental funds include the General Fund and the Liquor Fund.

Business-Type Funds: The Township has a Water Fund and a Sewer Fund which include the activity of providing water and sewer to Township residents.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

Our cash position in both the governmental and business-type activities remain strong.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The General Fund pays for most of the Township's governmental services. The most significant was fire protection which incurred expenses of \$71,830.89. The Water and Sewer Funds incurred \$77,157.65 in depreciation expense and \$138,576.01 in other expenses.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township's governmental activities invested \$0 in capital assets.

The Township's business-type activities invested \$0 in capital assets.

The Township's governmental activities paid \$0 of principal on the contract payable.

The Township's business-type activities paid \$18,500.00 of principal on the water and sewer bonds payable.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

The future of state revenue sharing is very clouded and it represents 69% of our income. We continue to grow at a moderate rate in taxable values with little demand for infrastructure, except good roads and water, where available.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is designed to provide our taxpayers, creditors, investors and customers with a general overview of the Township's finances and to demonstrate the Township's accountability for the revenues it receives. If you have any questions concerning this report please contact the Township Clerk or Township Treasurer at 906-293-5857.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS  
March 31, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
<b>ASSETS:</b>			
Current assets:			
Cash in bank	236 520 78	87 026 82	323 547 60
Petty cash	100 00	-	100 00
Accounts receivable	44 74	6 789 74	6 834 48
Taxes receivable	4 067 34	-	4 067 34
Total current assets	<u>240 732 86</u>	<u>93 816 56</u>	<u>334 549 42</u>
Restricted assets:			
Cash in bank	-	85 650 00	85 650 00
Total restricted assets	<u>-</u>	<u>85 650 00</u>	<u>85 650 00</u>
Capital assets:			
Capital assets	60 200 00	3 857 882 00	3 918 082 00
Accumulated depreciation	(50 200 00)	(965 155 50)	(1 015 355 50)
Total capital assets	<u>10 000 00</u>	<u>2 892 726 50</u>	<u>2 902 726 50</u>
<b>TOTAL ASSETS</b>	<u><u>250 732 00</u></u>	<u><u>3 072 193 06</u></u>	<u><u>3 322 925 92</u></u>
<b>LIABILITIES AND NET ASSETS:</b>			
Current liabilities:			
Accounts payable	10 264 09	-	10 264 09
Due to other units	254 00	-	254 00
Internal balances	(312 810 00)	312 810 00	-
Accrued interest payable	-	679 00	679 00
Current portion of long-term debt	-	18 500 00	18 500 00
Total current liabilities	<u>(302 291 91)</u>	<u>331 989 00</u>	<u>29 697 09</u>
Long-term liabilities:			
Bonds payable	-	765 250 00	765 250 00
Less current portion	-	(18 500 00)	(18 500 00)
Total long-term liabilities	<u>-</u>	<u>746 750 00</u>	<u>746 750 00</u>
Net assets:			
Invested in capital assets, net of related debt	10 000 00	1 814 666 50	1 824 666 50
Restricted for debt service	-	85 650 00	85 650 00
Unrestricted	543 024 77	93 137 56	636 162 33
Total net assets	<u>553 024 77</u>	<u>1 993 454 06</u>	<u>2 546 478 83</u>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u><u>250 732 86</u></u>	<u><u>3 072 193 06</u></u>	<u><u>3 322 925 92</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES  
Year ended March 31, 2006

	<u>Expenses</u>	<u>Program Revenue</u>	<u>Governmental Activities</u>
		<u>Charges for Services</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
<b>FUNCTIONS/PROGRAMS</b>			
Governmental Activities:			
Legislative	1 837 50	-	(1 837 50)
General government	113 099 87	14 394 48	(98 705 39)
Public safety	74 256 64	-	(74 256 64)
Public works	9 511 78	-	(9 511 78)
Recreation and culture	33 92	-	(33 92)
Other	19 853 00	-	(19 853 00)
<b>Total Governmental Activities</b>	<u>218 592 71</u>	<u>14 394 48</u>	<u>(204 198 23)</u>
Business-Type Activities:			
Water and sewer	215 733 66	192 203 30	-
<b>Total Business-Type Activities</b>	<u>215 733 66</u>	<u>192 203 30</u>	<u>-</u>
<b>Total Government</b>	<u>434 326 37</u>	<u>206 597 78</u>	<u>(204 198 23)</u>
General Revenues:			
Property taxes			30 647 08
Other taxes			29 024 63
State revenue sharing			169 838 75
Interest			3 710 22
Miscellaneous			973 67
<b>Total General Revenues</b>			<u>234 194 35</u>
Change in net assets			29 996 12
Net assets, beginning of year			<u>523 028 65</u>
Net Assets, End of Year			<u>553 024 77</u>

The accompanying notes are an integral part of these financial statements.

<u>Business-Type Activities</u>	<u>Total</u>
<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
-	(1 837 50)
-	(98 705 39)
-	(74 256 64)
-	(9 511 78)
-	(33 92)
-	(19 853 00)
-	(204 198 23)
(23 530 36)	(23 530 36)
(23 530 36)	(23 530 36)
(23 530 36)	(227 728 59)
-	30 647 08
-	29 024 63
-	169 838 75
3 320 64	7 030 86
-	973 67
3 320 64	237 514 99
(20 209 72)	9 786 40
2 013 663 78	2 536 692 43
1 993 454 06	2 546 478 83

TOWNSHIP OF PENTLAND  
Luce County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS  
March 31, 2006

	<u>General</u>	<u>Other Funds</u>	<u>Total</u>
<u>Assets</u>			
Cash in bank	234 123 88	2 396 90	236 520 78
Petty cash	100 00	-	100 00
Accounts receivable	44 74	-	44 74
Taxes receivable	4 067 34	-	4 067 34
Due from other funds	<u>312 810 00</u>	<u>-</u>	<u>312 810 00</u>
Total Assets	<u>551 145 96</u>	<u>2 396 90</u>	<u>553 542 86</u>
<u>Liabilities and Fund Equity</u>			
Liabilities:			
Accounts payable	10 264 09	-	10 264 09
Due to other units	<u>254 00</u>	<u>-</u>	<u>254 00</u>
Total liabilities	<u>10 518 09</u>	<u>-</u>	<u>10 518 09</u>
Fund equity:			
Fund balances:			
Unreserved:			
Undesignated	<u>540 627 87</u>	<u>2 396 90</u>	<u>543 024 77</u>
Total fund equity	<u>540 627 87</u>	<u>2 396 90</u>	<u>543 024 77</u>
Total Liabilities and Fund Equity	<u>551 145 96</u>	<u>2 396 90</u>	<u>553 542 86</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
March 31, 2006

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	543 024 77
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	60 200 00
Accumulated depreciation	<u>(50 200 00)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u>553 024 77</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -  
GOVERNMENTAL FUNDS  
Year ended March 31, 2006

	<u>General</u>	<u>Other Funds</u>	<u>Total</u>
Revenues:			
Property taxes	30 647 08	-	30 647 08
Other taxes	29 024 63	-	29 024 63
State revenue sharing	167 441 85	2 396 90	169 838 75
Charges for services:			
Property tax administration	12 669 48	-	12 669 48
Interest	3 710 22	-	3 710 22
Rents	1 725 00	-	1 725 00
Miscellaneous	973 67	-	973 67
Total revenues	<u>246 191 93</u>	<u>2 396 90</u>	<u>248 588 83</u>
Expenditures:			
Legislative:			
Township Board	1 837 50	-	1 837 50
General government:			
Supervisor	10 860 42	-	10 860 42
Elections	1 051 23	-	1 051 23
Assessor	16 168 12	-	16 168 12
Clerk	9 582 86	-	9 582 86
Board of Review	704 94	-	704 94
Treasurer	10 800 43	-	10 800 43
Building and grounds	25 674 60	-	25 674 60
Unallocated	38 257 27	-	38 257 27
Public safety:			
Law enforcement	-	2 425 75	2 425 75
Fire protection	71 830 89	-	71 830 89
Public works:			
Highways and streets	4 680 00	-	4 680 00
Street lighting	4 831 78	-	4 831 78
Culture and recreation:			
Recreation	33 92	-	33 92
Other functions:			
Insurance	19 853 00	-	19 853 00
Total expenditures	<u>216 166 96</u>	<u>2 425 75</u>	<u>218 592 71</u>
Excess (deficiency) of revenues over expenditures	30 024 97	(28 85)	29 996 12
Fund balances, April 1	<u>510 602 90</u>	<u>2 425 75</u>	<u>513 028 65</u>
Fund Balances, March 31	<u>540 627 87</u>	<u>2 396 90</u>	<u>543 024 77</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN  
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES  
Year ended March 31, 2006

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS 29 996 12

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,  
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense  
Capital Outlay

-  
-

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES 29 996 12

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

STATEMENT OF NET ASSETS – BUSINESS-TYPE FUNDS  
March 31, 2006 and 2005

	<u>Sewer Fund</u>		<u>Water Fund</u>	
	<u>3/31/05</u>	<u>3/31/06</u>	<u>3/31/05</u>	<u>3/31/06</u>
<u>Assets</u>				
Current assets:				
Cash in bank	42 805 12	40 422 07	34 757 68	46 604 75
Accounts receivable	24 567 22	5 629 63	850 88	1 160 11
Total current assets	<u>67 372 34</u>	<u>46 051 70</u>	<u>35 608 56</u>	<u>47 764 86</u>
Restricted assets:				
Cash in bank	-	-	61 875 00	85 650 00
Total restricted assets	<u>-</u>	<u>-</u>	<u>61 875 00</u>	<u>85 650 00</u>
Fixed assets:				
Sewer system	963 624 00	963 624 00	-	-
Water system	-	-	2 894 258 00	2 894 258 00
Accumulated depreciation	(445 362 65)	(464 635 14)	(442 635 20)	(500 520 36)
Net fixed assets	<u>518 261 35</u>	<u>498 988 86</u>	<u>2 451 622 80</u>	<u>2 393 737 64</u>
Total Assets	<u>585 633 69</u>	<u>545 040 56</u>	<u>2 549 106 36</u>	<u>2 527 152 50</u>
<u>Liabilities and Net Assets</u>				
Current liabilities:				
Due to other funds	247 837 27	226 000 00	88 810 00	86 810 00
Accrued interest payable	679 00	679 00	-	-
Current portion of long-term debt	7 500 00	7 500 00	11 000 00	11 000 00
Total current liabilities	<u>256 016 27</u>	<u>234 179 00</u>	<u>99 810 00</u>	<u>97 810 00</u>
Long-term liabilities:				
Bonds payable	85 750 00	78 250 00	698 000 00	687 000 00
Less current portion	(7 500 00)	(7 500 00)	(11 000 00)	(11 000 00)
Total long-term liabilities	<u>78 250 00</u>	<u>70 750 00</u>	<u>687 000 00</u>	<u>676 000 00</u>
Net assets:				
Invested in capital assets, net of related debt	184 674 08	194 738 86	1 664 812 80	1 619 927 64
Restricted for debt service	-	-	61 875 00	85 650 00
Unrestricted	66 693 34	45 372 70	35 608 56	47 764 86
Total net assets	<u>251 367 42</u>	<u>240 111 56</u>	<u>1 762 296 36</u>	<u>1 753 342 50</u>
Total Liabilities and Net Assets	<u>585 633 69</u>	<u>545 040 56</u>	<u>2 549 106 36</u>	<u>2 527 152 50</u>

The accompanying notes are an integral part of these financial statements.

Totals

<u>3/31/05</u>	<u>3/31/06</u>
77 562 80	87 026 82
<u>25 418 10</u>	<u>6 789 74</u>
<u>102 980 90</u>	<u>93 816 56</u>
<u>61 875 00</u>	<u>85 650 00</u>
<u>61 875 00</u>	<u>85 650 00</u>
963 624 00	963 624 00
2 894 258 00	2 894 258 00
<u>(887 997 85)</u>	<u>(965 155 50)</u>
<u>2 969 884 15</u>	<u>2 892 726 50</u>
<u>3 134 740 05</u>	<u>3 072 193 06</u>
336 647 27	312 810 00
679 00	679 00
<u>18 500 00</u>	<u>18 500 00</u>
<u>355 826 27</u>	<u>331 989 00</u>
783 750 00	765 250 00
<u>(18 500 00)</u>	<u>(18 500 00)</u>
<u>765 250 00</u>	<u>746 750 00</u>
1 849 486 88	1 814 666 50
61 875 00	85 650 00
<u>102 301 90</u>	<u>93 137 56</u>
<u>2 013 663 78</u>	<u>1 993 454 06</u>
<u>3 134 740 05</u>	<u>3 072 193 06</u>

TOWNSHIP OF PENTLAND  
Luce County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS – BUSINESS-TYPE FUNDS  
March 31, 2006 and 2005

	<u>Sewer Fund</u>		<u>Water Fund</u>	
	<u>3/31/05</u>	<u>3/31/06</u>	<u>3/31/05</u>	<u>3/31/06</u>
Operating revenues:				
Charges for services	11 868 46	71 712 61	125 067 63	120 490 69
Miscellaneous	-	-	-	-
Total operating revenues	<u>111 868 46</u>	<u>71 712 61</u>	<u>125 067 63</u>	<u>120 490 69</u>
Operating expenses:				
Wages	21 237 96	21 826 24	23 070 96	23 714 32
Benefits	1 643 53	1 754 30	1 943 93	1 895 47
Supplies	2 458 05	516 93	1 380 82	2 489 27
Utilities	3 729 79	3 865 96	7 626 13	7 939 19
Repairs and maintenance	19 034 40	4 494 35	11 353 77	1 714 84
Insurance	200 00	200 00	420 00	420 00
Treatment costs	23 251 91	27 675 52	1 078 64	1 344 37
Miscellaneous	-	618 50	1 253 56	2 656 75
Total operating expenses before depreciation	<u>71 555 64</u>	<u>60 951 80</u>	<u>48 127 81</u>	<u>42 174 21</u>
Operating income (loss) before depreciation	40 312 82	10 760 81	70 594 52	78 316 48
Less: depreciation	<u>(19 272 49)</u>	<u>(19 272 49)</u>	<u>(57 885 16)</u>	<u>(57 885 16)</u>
Operating income (loss)	<u>21 040 33</u>	<u>8 511 68</u>	<u>12 709 36</u>	<u>20 431 32</u>
Non-operating income and (expense):				
Interest income	660 92	1 543 32	1 234 85	1 777 32
Interest expense	<u>(4 650 00)</u>	<u>(4 287 50)</u>	<u>(31 657 50)</u>	<u>(31 162 50)</u>
Net non-operating income and (expense)	<u>(3 989 08)</u>	<u>(2 744 18)</u>	<u>(30 422 65)</u>	<u>(29 385 18)</u>
Change in net assets	17 051 25	(11 255 86)	(17 713 29)	(8 953 86)
Net assets, April 1	<u>234 316 17</u>	<u>251 367 42</u>	<u>1 780 009 65</u>	<u>1 762 296 36</u>
Net Assets, March 31	<u>251 367 42</u>	<u>240 111 56</u>	<u>1 762 296 36</u>	<u>1 753 342 50</u>

The accompanying notes are an integral part of these financial statements.

Totals

<u>3/31/05</u>	<u>3/31/06</u>
203 590 79	192 203 30
<u>230 590 79</u>	<u>192 203 30</u>
44 308 92	45 540 56
3 587 46	3 649 77
3 838 87	3 006 20
11 355 92	11 805 15
30 388 17	6 209 19
620 00	620 00
24 330 55	29 019 89
<u>1 253 56</u>	<u>3 275 25</u>
<u>119 683 45</u>	<u>103 126 01</u>
110 907 34	89 077 29
<u>(77 157 65)</u>	<u>(77 157 65)</u>
<u>33 749 69</u>	<u>11 919 64</u>
1 895 77	3 320 64
<u>(36 307 50)</u>	<u>(35 450 00)</u>
<u>(34 411 73)</u>	<u>(32 129 36)</u>
(662 04)	(20 209 72)
<u>2 014 325 82</u>	<u>2 013 663 78</u>
<u>2 013 663 78</u>	<u>1 993 454 06</u>

TOWNSHIP OF PENTLAND  
Luce County, Michigan

STATEMENT OF CASH FLOWS  
BUSINESS-TYPE FUNDS

Year ended March 31, 2006 and 2005

	<u>Sewer Fund</u>		<u>Water Fund</u>	
	<u>3/31/05</u>	<u>3/31/06</u>	<u>3/31/05</u>	<u>3/31/06</u>
Cash flows from operating activities:				
Cash received from customers	87 811 33	90 650 20	118 305 97	122 069 52
Cash payments to suppliers for goods and services	(50 317 68)	(39 125 56)	(25 056 85)	(20 347 95)
Cash payments to employees for services	(21 237 96)	(21 826 24)	(23 070 96)	(23 714 32)
Other operating receipts	-	-	-	-
Net cash provided (used) for operating activities	<u>16 255 69</u>	<u>29 698 40</u>	<u>70 178 16</u>	<u>78 007 25</u>
Cash flows from non-capital and related financing activities:				
Increase (decrease) in amounts due to other funds	<u>13 837 27</u>	<u>(21 837 27)</u>	<u>(2 000 00)</u>	<u>(2 000 00)</u>
Net cash provided (used) for non-capital and related financing activities	<u>13 837 27</u>	<u>(21 837 27)</u>	<u>(2 000 00)</u>	<u>(2 000 00)</u>
Cash flows from capital and related financing activities:				
Principal paid on revenue bond maturities	(7 250 00)	(7 500 00)	(11 000 00)	(11 000 00)
Interest paid on revenue bonds and equipment contracts	<u>(4 650 00)</u>	<u>(4 287 50)</u>	<u>(31 657 50)</u>	<u>(31 162 50)</u>
Net cash provided (used) for capital and related financing activities	<u>(11 900 00)</u>	<u>(11 787 50)</u>	<u>(42 657 50)</u>	<u>(42 162 50)</u>
Cash flows from investing activities:				
Interest income	<u>660 92</u>	<u>1 543 32</u>	<u>1 234 85</u>	<u>1 777 32</u>
Net cash provided (used) for investing activities	<u>660 92</u>	<u>1 543 32</u>	<u>1 234 85</u>	<u>1 777 32</u>
Net increase (decrease) in cash and cash equivalents	18 853 88	(2 383 05)	26 755 51	35 622 07
Cash and cash equivalents, April 1	<u>23 951 24</u>	<u>42 805 12</u>	<u>69 877 17</u>	<u>96 632 68</u>
Cash and Cash Equivalents, March 31	<u>42 805 12</u>	<u>40 422 07</u>	<u>96 632 68</u>	<u>132 254 75</u>
Reconciliation of operating to net cash provided (used) for operating activities:				
Operating income (loss)	21 040 33	(8 511 68)	12 709 36	20 431 32
Depreciation	19 272 49	19 272 49	57 885 16	57 885 16
Increase (decrease) in assets and liabilities	<u>(24 057 13)</u>	<u>18 937 59</u>	<u>(416 36)</u>	<u>(309 23)</u>
Net Cash Provided (Used) for Operating Activities	<u>16 255 69</u>	<u>29 698 40</u>	<u>70 178 16</u>	<u>78 007 25</u>

The accompanying notes are an integral part of these financial statements.

Totals	
<u>3/31/05</u>	<u>3/31/06</u>
206 117 30	212 719 72
(75 374 53)	(59 473 51)
(44 308 92)	(45 540 56)
<u>-</u>	<u>-</u>
<u>86 433 85</u>	<u>107 705 65</u>
<u>11 837 27</u>	<u>(23 837 27)</u>
<u>11 837 27</u>	<u>(23 837 27)</u>
(18 250 00)	(18 500 00)
<u>(36 307 50)</u>	<u>(35 450 00)</u>
<u>(55 557 50)</u>	<u>(53 950 00)</u>
<u>1 895 77</u>	<u>3 320 64</u>
<u>1 895 77</u>	<u>3 320 64</u>
45 609 36	33 239 02
<u>93 828 41</u>	<u>139 437 80</u>
<u>139 437 80</u>	<u>172 676 82</u>
33 749 69	11 919 64
77 157 65	77 157 65
<u>(24 473 49)</u>	<u>18 628 36</u>
<u>86 433 85</u>	<u>107 705 65</u>

TOWNSHIP OF PENTLAND  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS

March 31, 2006

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Pentland, Luce County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Pentland. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental and business-type funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Governmental Funds

TOWNSHIP OF PENTLAND  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Fund

This fund is used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise funds are charges to customers for services. The enterprise funds also recognize as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

All purchases of materials are reflected in expense when paid in all funds.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2005 tax roll millage rate was .9406 mills, and the taxable value was \$32,325,856.00.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 1 – Summary of Significant Accounting Policies (continued)

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

Capital Assets

Capital assets are defined by the Township as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings	50 years
Equipment	10 years

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 2 – Budgets and Budgetary Accounting

7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated three banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

	<u>Carrying Amounts</u>
Total Deposits	<u>409 197 60</u>

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	260 170 43
Uninsured and Uncollateralized	<u>327 710 73</u>
Total Deposits	<u>587 881 16</u>

The Township of Pentland did not have any investments as of March 31, 2006.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 4 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	312 810 00	Sewer Water	226 000 00 86 810 00
Total	<u>312 800 00</u>	Total	<u>312 810 00</u>

Note 5 – Capital Assets

Capital asset activity of the Township's Governmental and Business-Type activities for the current year was as follows:

	<u>Balance 4/1/05</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance 3/31/06</u>
<u>Governmental Activities:</u>				
Land	10 000 00	-	-	10 000 00
Buildings	40 000 00	-	-	40 000 00
Equipment	<u>10 200 00</u>	<u>-</u>	<u>-</u>	<u>10 200 00</u>
Total	60 200 00	-	-	60 200 00
Accumulated Depreciation	<u>(50 200 00)</u>	<u>-</u>	<u>-</u>	<u>(50 200 00)</u>
Net Governmental Capital Assets	<u>10 000 00</u>	<u>-</u>	<u>-</u>	<u>10 000 00</u>
<u>Business-Type Activities:</u>				
Water and Sewer System	3 857 882 00	-	-	3 857 882 00
Accumulated Depreciation	<u>(887 997 85)</u>	<u>(77 157 65)</u>	<u>-</u>	<u>(965 155 50)</u>
Net Business-Type Capital Assets	<u>2 969 884 15</u>	<u>(77 157 65)</u>	<u>-</u>	<u>2 892 726 50</u>

TOWNSHIP OF PENTLAND  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 6 – Sewer Revenue Bonds Payable

		<u>Date of Issue</u>	<u>Amount of Issue</u>	<u>Interest Rate</u>
Luce County D.P.W. Obligation Payable		8/1/76	201 250	5%
<u>Payable Fiscal Year Ended March 31</u>	<u>September 1 Interest</u>	<u>March 1</u>		<u>Total</u>
		<u>Principal</u>	<u>Interest</u>	
2007	1 956 25	7 750 00	1 956 25	11 662 50
2008	1 762 50	7 750 00	1 762 50	11 275 00
2009	1 568 75	7 750 00	1 568 75	10 887 50
2010	1 375 00	7 750 00	1 375 00	10 500 00
2011	1 181 25	7 750 00	1 181 25	10 112 50
2012	987 50	7 750 00	987 50	9 725 00
2013	793 75	7 750 00	793 75	9 337 50
2014	600 00	8 000 00	600 00	9 200 00
2015	400 00	8 000 00	400 00	8 800 00
2016	<u>200 00</u>	<u>8 000 00</u>	<u>200 00</u>	<u>8 400 00</u>
Totals	<u>10 825 00</u>	<u>78 250 00</u>	<u>10 825 00</u>	<u>99 900 00</u>

Note 7 – Water Revenue Bonds Payable

<u>Due Date July 1</u>	<u>Series 1997A Principal</u>	<u>Series 1997B Principal</u>
2006	10 000 00	1 000 00
2007	10 000 00	1 000 00
2008	10 000 00	1 000 00
2009	10 000 00	1 000 00
2010	10 000 00	1 000 00
2011	10 000 00	1 000 00
2012	10 000 00	1 000 00
2013	10 000 00	1 000 00
2014	15 000 00	1 000 00
2015	15 000 00	1 000 00
2016	15 000 00	1 000 00
2017	15 000 00	1 000 00
2018	15 000 00	1 000 00
2019	15 000 00	1 000 00
2020	15 000 00	1 000 00
2021	20 000 00	1 500 00
2022	20 000 00	1 500 00
2023	20 000 00	1 500 00
2024	20 000 00	1 500 00
2025	20 000 00	1 500 00
2026	25 000 00	1 500 00
2027	25 000 00	1 500 00
2028	25 000 00	1 500 00
2029	25 000 00	1 500 00

TOWNSHIP OF PENTLAND  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 7 – Water Revenue Bonds Payable (continued)

<u>Due Date</u> <u>July 1</u>	<u>Series 1997A</u> <u>Principal</u>	<u>Series 1997B</u> <u>Principal</u>
2030	30 000 00	1 500 00
2031	30 000 00	1 500 00
2032	30 000 00	1 500 00
2033	30 000 00	1 500 00
2034	35 000 00	1 500 00
2035	35 000 00	2 000 00
2036	35 000 00	2 000 00
2037	35 000 00	2 000 00
Totals	<u>645 000 00</u>	<u>42 000 00</u>

The Water Fund revenue bonds require the establishment of a bond reserve account and a capital reserve account. As of March 31, 2006, the reserve accounts are as follows:

<u>Account</u>	<u>Required</u> <u>Reserve</u>	<u>Actual</u> <u>Reserve</u>	<u>Difference</u>
Bond Reserve	35 275 00	35 275 00	-
Capital Reserve	134 300 00	50 375 00	83 925 00

The Township of Pentland maintains that expenditures for capital items accounts for the difference in the capital reserve.

Note 8 – Deferred Compensation Plan

The Township of Pentland offers its employees two deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. The assets of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. The assets may not be diverted to any other use. The administrators, Prudential and Nationwide Retirement Systems are agents of the Township of Pentland for the purposes of providing direction to the investment of the funds held in the account. The deferred compensation plan balances and activities are not reflected in the Township of Pentland's financial statements.

Note 9 – Pension Plan

The Township does not have a pension plan.

Note 10 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

NOTES TO FINANCIAL STATEMENTS  
March 31, 2006

Note 11 – Segment Information for Enterprise Funds

The Township maintains two Enterprise Funds which provide sewer and water services. Segment information for the year ended March 31, 2006, is as follows:

	<u>Sewer Fund</u>	<u>Water Fund</u>
Operating revenues	71 712 61	120 490 69
Depreciation expense	19 272 49	57 885 16
Change in net assets	(11 255 86)	(8 953 86)
Operating income (loss)	8 511 68	20 431 32
Bonds payable	78 250 00	687 000 00
Net working capital	(188 127 30)	(50 045 14)
Net assets	240 111 56	1 753 342 50

Note 12 – Building Permits

The Township of Pentland does not issue building permits. Building permits are issued by the County of Luce.

TOWNSHIP OF PENTLAND  
Luce County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND  
Year ended March 31, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	32 000 00	32 000 00	30 647 08	(1 352 92)
Other taxes	26 236 00	26 236 00	29 024 63	2 788 63
State revenue sharing	166 000 00	166 000 00	167 441 85	1 441 85
Charges for services:				
Property tax administration	5 000 00	5 000 00	12 669 48	7 669 48
Interest	3 000 00	3 000 00	3 710 22	710 22
Rents	1 500 00	1 500 00	1 725 00	225 00
Miscellaneous	<u>2 000 00</u>	<u>2 000 00</u>	<u>973 67</u>	<u>(1 026 33)</u>
Total revenues	<u>235 736 00</u>	<u>235 736 00</u>	<u>246 191 93</u>	<u>10 455 93</u>
Expenditures:				
Legislative:				
Township Board	2 250 00	2 250 00	1 837 50	(412 50)
General government:				
Supervisor	11 125 00	11 125 00	10 860 42	(264 58)
Elections	1 900 00	1 900 00	1 051 23	(848 77)
Assessor	16 975 00	16 975 00	16 168 12	(806 88)
Clerk	10 153 00	10 153 00	9 582 86	(570 14)
Board of Review	850 00	850 00	704 94	(145 06)
Treasurer	11 228 00	11 228 00	10 800 43	(427 57)
Building and grounds	28 200 00	28 200 00	25 674 60	(2 525 40)
Unallocated	47 856 00	44 756 00	38 257 27	(6 498 73)
Public safety:				
Fire protection	71 900 00	74 331 00	71 830 89	(2 500 11)
Public works:				
Highways and streets	5 000 00	4 680 00	4 680 00	-
Street lighting	5 000 00	5 000 00	4 831 78	(168 22)
Culture and recreation:				
Recreation	400 00	400 00	33 92	(366 08)
Other functions:				
Insurance	18 864 00	19 853 00	19 853 00	-
Contingency	<u>4 035 00</u>	<u>4 035 00</u>	<u>-</u>	<u>(4 035 00)</u>
Total expenditures	<u>235 736 00</u>	<u>235 736 00</u>	<u>216 166 96</u>	<u>(19 569 04)</u>
Excess of revenues over expenditures	-	-	30 024 97	30 024 97
Fund balance, April 1	<u>440 000 00</u>	<u>440 000 00</u>	<u>510 602 90</u>	<u>70 602 90</u>
Fund Balance, March 31	<u>440 000 00</u>	<u>440 000 00</u>	<u>540 627 87</u>	<u>100 627 87</u>

TOWNSHIP OF PENTLAND  
Luce County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended March 31, 2006

Township Board:	
Wages	1 837 50
Wages Administrative Deputy	
Education and training	
	<u>1 837 50</u>
Supervisor:	
Salary	10 724 52
Supplies	65 00
Miscellaneous	70 90
	<u>10 860 42</u>
Elections:	
Wages	-
Supplies	1 028 13
Miscellaneous	23 10
	<u>1 051 23</u>
Assessor:	
Wages	10 724 52
Education and training	494 06
Manatron – tax roll	3 831 62
Postage and supplies	1 117 92
	<u>16 168 12</u>
Clerk:	
Salary	8 753 16
Supplies	245 15
Publishing and Printing	524 55
Miscellaneous	60 01
	<u>9 582 86</u>
Board of Review:	
Wages	652 66
Miscellaneous	52 28
	<u>704 94</u>
Treasurer:	
Salary	7 376 40
Salary – deputy	2 201 88
Supplies	1 222 15
	<u>10 800 43</u>
Building and grounds:	
Wages	9 147 00
Contract services	1 420 00
Supplies	733 94
Snow removal	1 263 86
Utilities	1 666 43
Fuel oil	5 251 56
Repairs and maintenance	4 637 04
Miscellaneous	1 554 77
	<u>25 674 60</u>
Unallocated:	
Audit	3 500 00
Legal fees	538 33
Administrative deputy	27 198 44
Payroll taxes	6 217 08
Dues	803 42
	<u>38 257 27</u>

TOWNSHIP OF PENTLAND  
Luce County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT  
Year ended March 31, 2006

Fire protection:	
Contracted services	33 430 89
Hydrant rental	<u>38 400 00</u>
	<u>71 830 89</u>
Highways and streets:	
Maintenance	<u>4 680 00</u>
Street lighting	<u>4 831 78</u>
Recreation	<u>33 92</u>
Insurance	<u>19 853 00</u>
Total Expenditures	<u><u>216 166 96</u></u>

TOWNSHIP OF PENTLAND  
Luce County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
Year ended March 31, 2006

	<u>Balance</u> <u>4/1/05</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>3/31/06</u>
<u>Assets</u>				
Cash in Bank	<u>160 66</u>	<u>792 923 90</u>	<u>793 084 56</u>	<u>-</u>
<u>Liabilities</u>				
Due to other funds	160 00	41 255 91	41 416 57	-
Due to other units	<u>-</u>	<u>751 667 99</u>	<u>751 667 99</u>	<u>-</u>
Total Liabilities	<u>160 00</u>	<u>792 923 90</u>	<u>793 084 56</u>	<u>-</u>

TOWNSHIP OF PENTLAND  
Luce County, Michigan

CURRENT TAX COLLECTION FUND  
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS  
Year ended March 31, 2006

Cash in bank -- beginning of year	<u>160 66</u>
Cash receipts:	
Property taxes	792 190 14
Interest	<u>733 76</u>
Total cash receipts	<u>792 923 90</u>
Total beginning balance and cash receipts	<u>793 084 56</u>
Cash disbursements:	
Township General Fund	41 416 57
Luce County	482 888 80
Eastern U.P. Intermediate School District	28 282 99
Tahquamenon Area Schools	<u>240 496 20</u>
Total cash disbursements	<u>793 084 56</u>
Cash in Bank -- End of Year	<u>-</u>

# CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA  
KENNETH P. KUSTERER, CPA

512 N. LINCOLN AVE. - SUITE 100  
P.O. BOX 686  
BAY CITY, MICHIGAN 48707

TEL (989) 894-1040  
FAX (989) 894-5494

## REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

July 14, 2006

To the Township Board  
Township of Pentland  
Luce County, Michigan

We have audited the financial statements of the Township of Pentland, Luce County, Michigan, as of and for the year ended March 31, 2006, and have issued our report thereon dated July 14, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

### Compliance

As part of obtaining reasonable assurance about whether Township of Pentland's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered Township of Pentland's internal control over financial reporting in order to determine our auditing procedures for the purposes of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our study and evaluation disclosed the following condition that we believe to be a material weakness for which management believes corrective action is not practicable in the circumstances. Within the present plan of organization of the Township there is an inadequate control over cash transactions caused by an inadequate segregation of duties which is due to the limited number of office personnel employed. Such study and evaluation disclosed no conditions that we believe to be material weaknesses for which corrective action by management is practicable in the circumstances.

This report is intended for the information of management and federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

*Campbell, Kusterer & CO., P.C.*

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## **AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS**

July 14, 2006

To the Township Board  
Township of Pentland  
Luce County, Michigan

We have audited the financial statements of the Township of Pentland for the year ended March 31, 2006. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

### **AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES**

We conducted our audit of the financial statements of the Township of Pentland in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

- To the Township Board  
Township of Pentland  
Luce County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

### **SIGNIFICANT ACCOUNTING POLICIES**

The significant accounting policies are described in Note 1 to the financial statements.

### **OTHER COMMUNICATIONS**

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

### **COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY**

Our procedures disclosed the following conditions that we would like to bring to your attention:

#### **SEGREGATION OF DUTIES**

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated March 31, 2006.

### **SUMMARY**

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

*Campbell, Kusterer & Co., P.C.*  
CAMPBELL, KUSTERER & CO., P.C.  
Certified Public Accountants